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October Unemployment Highest in EU

11. (U) According to the EU's Eurostat, Spain's unemployment rate for the month of October reached 12.8 percent, giving the country the highest rate in the EU for the 6th month running. Second Vice President and Minister of Economy Pedro Solbes has noted that unemployment is the primary concern of the Zapatero Administration and is likely to increase into 12009. Much of the unemployment comes as a result of Spain's residential construction crash, but it is also tied to the international markets turmoil. According to Spain's National Employment Institute, which uses a different methodology than Eurostat, the number of registered unemployed increased by 171,000 in November, a 6 percent increase from October, bringing the total number of unemployed to just under 3 million. The sectors suffering the highest rates of unemployment are services, construction, industry and agriculture. (All Media 12/2-12/3)

November Car Sales Down Almost 50 Percent from Year Before

12. (U) Car sales fell by almost 50 percent in November from November of 2007 according to Spain's auto association, Anfac. With over 50,000 auto workers affected by the sales downturn through layoffs or a reduction in hours, this sector has become a priority for the GOS. Last week's 10.85 billion euro stimulus package (ref a) included 800 million euros for the auto industry, while the regional government of Aragon provided additional incentives. In a meeting December 3 with union leaders, President Zapatero clarified that the GOS would provide support only to those auto companies that do not engage in layoffs. Press reports indicate Minister of Industry Miguel Sebastian is also considering proposing that car license fees be temporarily suspended. Spain has the world's 8th largest auto industry. (ABC, 12/1; El Pais, 12/5)

Industrial Production Down 12.8 Percent in October

¶3. (U) According to the National Institute of Statistics, industrial production dropped 12.8 percent year-on-year from October 2007 to October 2008, the largest such decline in the index's 15-year history. October 2008 is the sixth consecutive month in which production has declined on a year-on-year basis. (All Media, 12/5)

More Real Estate Companies in Financial Difficulties

¶4. (U) Real estate companies Habitat and Metrovacesa were the latest economic casualties of falling property prices and tight credit. Habitat, the fifth largest real estate company in Spain, filed for bankruptcy on November 28. Its debts of 2.3 billion euros make this the second largest bankruptcy filing after the Martinsa-Fadesa bankruptcy in early 2008. On December 4, the core shareholder (the Sanajuha family) of prominent property company Metrovacesa announced that it would turn over a 50% stake in the company to its creditor banks after the company was unable to meet its 2 billion euros in outstanding loans. Media reports also indicate that another prominent Spanish real estate company, Colonial, which has been in trouble for months, may be on the verge of not being able to meet its debt obligations. According to the Bank of Spain, construction and real estate firms hold over 25 percent of outstanding debt and represent over a quarter of all companies and individuals suspending debt payments. (Various Media, 11/1 -11/5)

GOS Debt Guarantees Heavily Sought After by Banks

¶5. (U) Most of Spain's major banks applied by the December 3 deadline to take advantage of the GOS offer to guarantee up to 100 billion euros of new bank debt. Information about which banks will be awarded these guarantees will not be made

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public until December 31. This offer was heavily subscribed to, unlike the GOS asset purchase auction of November 20 (ref b). On December 3, Second Vice President and Minister of Economy Pedro Solbes met with the heads of Spain's major banks to assess the impact of the GOS economic stimulus measures. (ABC, 12/3; El Pais 12/3)

Citigroup Fund to Buy Sacyr Highway Business

¶6. (U) On December 1, troubled construction company Sacyr Vallehermoso announced plans to sell its highway business Itinere Infraestructuras to a Citigroup-managed fund for 7.8 billion euros. The sale will help Sacyr trim its 19.7 billion euros in debt. A Sacyr spokesperson said that the company will continue to seek a buyer for its 20 percent stake in Repsol YPF, and maneuverings continue over the possibility that the Russian company Lukoil may purchase that stake (reftels). (El Pais, 12/2)

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